5

Japanese Foreign Direct Investment and the Transformation of the East Asian Political Economy: Corporate Strategy in the Automotive Sector

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The aim of this chapter is to examine the strategies employed by Japanese automobile manufacturers in East Asia in the context of the post-crisis transformation of the region’s political economy. Flying-geese (FG)-type models of foreign direct investment (FDI) have made valuable contributions to our conceptual understanding of Japanese MNC FDI, the international division of labour and economic development in East Asia. However, the increasingly diverse and complicated reality of the contemporary political economy may render these models overly simplistic and consequently of limited analytical value.

And, whereas globalization, the pace of technological change and the regionalization of production through networks underpinned our understanding of the region throughout the late 1980s to mid-1990s (Bernard and Ravenhill, 1995; Hatch and Yamamura, 1996), stalled multilateralism, market liberalization, new regionalism, regional economic integration and the continued rise of China define the contemporary era. These contextual issues are crucial to understanding both the activities of Japanese MNCs, Japan’s role in the region and the complex nature of production in East Asia.

Japan has been a central player in the regionalization of production in East Asia and now seeks to reinforce this by actively pursuing East Asian regionalism. Japanese auto manufacturers retain dominant positions in most East Asian markets, particularly so in ASEAN and, by extension given the size and impact of supporting industries, are clearly key actors in national and regional industrial development in general.

The first section of this chapter briefly reviews FDI theory and FG variants, while the second section documents in some detail key aspects of the region’s post-crisis transformation. The third section concerns regional integration and a fourth section presents analysis of data collected through questionnaires and interviews from a leading Japanese auto manufacturer in
an attempt to firmly locate a micro (firm) level investigation of corporate strategy in the broader (macro) context outlined above and below. A final section offers some brief concluding remarks.

**FDI theory, product cycles and the flying-geese model**

Traditional approaches to the overseas activities of firms have focused on the firm as the unit of analysis. Locational (why firms invest overseas) and organizational theories (how foreign firms can successfully compete with local competitors given the presumed costs of foreignness) have further concentrated on the maximization and application of firm-specific advantages as key to understanding the move to invest overseas.

Vernon's (1966) well-known 'product life-cycle' marked a departure from this narrowly defined field by synthesizing firm-based theories with those concerned with the dynamics of international trade, and it is at this point that the Western legacy brushes up closest with that emerging in Japan discussed below. Dunning's 'eclectic paradigm', however, made the convincing argument that FDI was sufficiently complex to require reference to all the major theoretical approaches described above. Essentially, Dunning stressed that a combination of advantages in three specific fields, namely 'organization' (O), 'location' (L) and 'internal' (I), are necessary for firms to undertake FDI. Thus, if not yet a general theory, the eclectic or OLI paradigm has provided a rigid analytical framework for the study of FDI by combining elements of international trade and industrial organisation theory. Yet the apparent Western bias inherent in mainstream approaches to FDI and the particular nature of Japanese FDI in East Asia led to the development of a Japanese response to which attention now turns.

**Development of Japanese FDI theory**

The Japanese approach to FDI has been dominated by the flying-geese paradigm first enunciated in the late 1930s (in Japanese) by Akamatsu. Since publication in English (1962) the theory has been continually modified, criticized, stretched and challenged. Three key aspects of the model have been identified by one of its most vociferous proponents, Kiyoshi Kojima (2000). First, the model describes a process of 'catching-up' industrialization between advanced and developing economies. Second, that FG-style FDI is inherently pro-trade (export-orientated) in contrast to the anti-trade (host-market) nature of Western (US) investments. Third, there is a regional dimension to the model based on comparative advantage and agreed specialization.

A central criticism of the theory is that its supposedly benign and developmental nature cloaks a conscious effort by Japan to dominate the region through dependency-inducing relationships. Indeed, a compelling response to Kojima and the Japanese school is made by Hatch and Yamamura (1996)